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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 339 January, 1989

Business in Virginia
November and December, 1988 Data

November produced some swings in the growth rates of our Virginia indicators. Bank debits reversed from being down 6.9 percent to up 11.2 percent for November. Building permits moved from an October gain of 17.2 percent to a November decline of 6.8, and electricity consumption also switched from positive (+2.1 percent) to negative (-6.1 percent).

Our sample of retail stores reported no change for November in sales per store compared to last November (next to last column, November Table II). We now know total retail sales for November (last column, December Table II) fell 3.4 percent statewide, with 15 of our 17 urban areas experiencing declines. Thus November was a disappointment to many retailers.

The economic indicators for which we have December data mostly showed gains compared to December 1987, but with substantial differences in the gains. Building permits statewide exploded, up 38.0 percent. Last December's dollar amount was unusually low, though, due to a lull after the stock market crash. Therefore the big jump this year did not bring the total back to the December 1986 level.

New car registrations in Virginia recorded a more modest but still surprising increase of 8.0 percent. That statewide rise was driven primarily by a 30.1 percent jump in Northern Virginia's sales, but five other urban areas also experienced double-digit increases. Thus in much of the state Virginians did not shun the big-ticket item, a new car, this Christmas.

Sales per store by our sample of retail establishments grew by 1.9 percent in December. That is a better gain than in most months of 1988, giving us another preliminary indication that Virginia consumers did spend more freely as Christmas drew near. That 1.9 percent increase however is less than the rate of inflation, so the real volume per store remained flat. The full taxable sales data for December, available next month, will show a much stronger gain; but, those total sales are being shared among many more stores than a year ago, holding sales per store to little or no real growth.

Electricity consumption increased 7.3 percent, in tandem with a water consumption rise of 1.4 percent. Those two improvements strongly imply good year-end gains in business output, backed up by the high rate of job growth experienced through November.

The generally good December performance improved the cumulative 1988 results. Building permits for the year were up 13.2 percent. That offset the 1987 decline of 11.6 percent, pulling the dollar amount for 1988 even with the 1986 level. If we adjust for inflation, the real value of 1988 construction is below the 1986 peak. Nevertheless Virginia's construction emlployment rose steadily in 1988 to an all-time peak. The booming growth of construction jobs has endured for 6 years, long enough to seem a permanent part of Virginia's economic outlook. Unfortunately the recent growth of construction employment cannot be sustained by the current rates of business and household expansion. As New England and much of the South Atlantic region have experienced recently, Virginia is heading towards some decline in construction activity.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

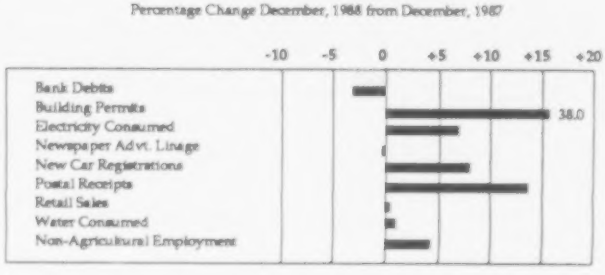
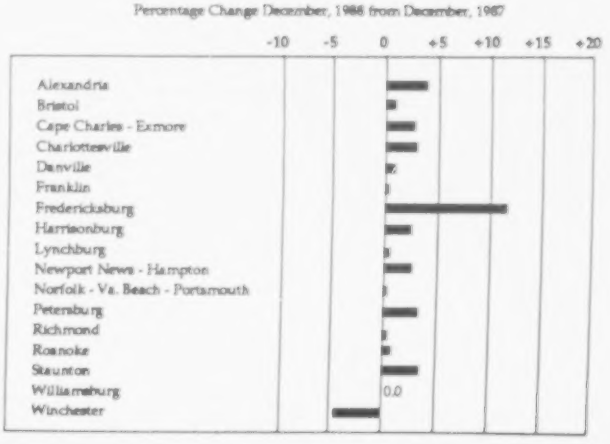


Chart II

City Indices



With the 8 percent advance in December, the 1988 new car registrations across the state pulled slightly ahead of 1987, up 0.2 percent. The year-end surge in car buying at least prevented a drop for the year. That was not the case for our sample of retail stores. The modest December gain of 1.9 percent left them with a decline of 0.9 percent for the year in the average sales per store. Total retail sales in Virginia through November, as reported by the Virginia Department of Taxation, were up 5.7 percent compared to January-November 1987 (using our adjusted January figures, as explained earlier in the year). Adding in the December figures will help, but the year's increase still will be under 7 percent. Here in Virginia as nationally, consumer spending no longer is the strong growth leader of years past.

Nonagricultural job growth remains very strong in Virginia, up 4.3 percent through November (latest month available). Another year of above-average employment gains lies ahead. But, with more moderate consumption growth and a leveling off in construction, the job growth will be somewhat less—our November prediction was 3.2 percent for 1989.RLP

Note that Table I, with the Monthly Index levels, is not included this month. Those numbers for the state and the urban areas are available on request.

Presidential Projections for 1989-1994

The medium-term economic projections underlying President Reagan's January 9 budget proposal are likely to be adopted by both President Bush and the Congress in developing their budget plans. President Reagan's Council of Economic Advisors described those projections at some length in the January 1989 Economic Report of the President.

We wanted our readers to know both the projected growth rates and the logic behind them prior to President Bush's February 9 budget message to Congress. Therefore, the remainder of this article and Tables IV and V are taken directly from pages 283-287 of the Economic Report of the President—with italics added by us for emphasis.

Note particularly that these projections are not referred to as "most-likely" forecasts. They are projections contingent upon the desired fiscal policy and monetary policy being adopted and successfully implemented.

The crucial private market element is a strong acceleration in the growth of real output per hour, to 2.1 percent annually by 1992. Then, the average annual 1988-1994 productivity growth for the nonfarm business sector will be 1.9 percent—three times the average annual rate for 1973-1981 and one-third higher than the 1981-1988 average. Will we see that large an acceleration that quickly? You be the judge.

Table [IV] summarizes the Administration's medium-term economic projections for the period 1990 through 1994. The projections are not year-to-year forecasts; rather, they indicate expected trends based on underlying factors ... that will allow continued expansion of the economy's capacity to produce. *These projections are contingent on the successful implementation of current and proposed government policies and on the assumption of no serious shocks to growth.* Implicit in these figures is the assumption that the free-market, incentive-oriented policies of this Administration, which have promoted the growth and more efficient use of national resources, will continue in the coming years. In particular, the projections embody the assumption that Federal spending continues to be brought under control and that the benefits of tax reform are retained. *Through spending restraint and economic growth, the Federal deficit is assumed to decline in line with the Gramm-Rudman-Hollings targets for deficit reduction. It is also assumed that the Federal Reserve provides sufficient expansion of monetary aggregates to maintain economic growth, while fostering continued progress toward the long-term goal of price stability.*

The long-run improvement in the Nation's standard of living depends importantly on expansion of its capacity to produce, which in turn is determined by the growth and productiveness of its resources.

Over the projection period, these long-run forces—growth of the labor force and labor productivity—are supplemented by changes in the utilization of capital and labor.

A detailed breakdown of the components that make up these sources of growth, organized into an accounting framework, is presented in Table [V]. In order to focus on trends in the economy and to avoid the complications of cyclical fluctuations, the first two columns of the table show growth rates from business cycle peak to business cycle peak for historical periods. The third column shows growth from the peak of the last business cycle through the third quarter of 1988, and the final column presents growth rates over the projection period, which extends through 1994.

The table shows that the average growth rate of real GNP through 1994 is projected to be 3.2 percent per year, the same as the average rate for the 1948-1981 postwar period

Critical to these projections is the assumption of continued productivity growth at the average rate of increase achieved from 1948 to 1981. This assumption recognizes favorable trends in the economy that are expected to restore productivity growth to its previous trend, as well as policy initiatives that are expected to promote technological change and growth in physical and human capital. Aging of the the baby-boom generation implies a trend toward a more experienced, more educated, and more skilled work force that should translate into improved productivity growth in the coming years. Slower growth of the labor force will facilitate capital deepening in coming years, that is, an increase in the stock of capital per employed worker. *Continued stability and gradual decline of the inflation rate should also contribute to stronger productivity growth by reducing the cost of capital source allocation. Oil and energy prices are expected to remain lower than in the late 1970s and the early 1980s, implying that firms will have more resources to spend on investments that enhance general productivity than on investments that reduce energy costs.*

Government policies should also contribute to increased productivity growth. Partly as a result of government initiatives, research and development expenditures as a share of GNP are expected to remain higher than in the 1970s, thus promoting innovation and technological change. Government initiatives to improve education and to promote investment in knowledge and human capital should also lift productivity growth. Tax reform has lessened the distortions to investment decisions by establishing more equal effective tax rates across investment activities. This effect, coupled with policy initiatives to lower market barriers and distortions, will allow capital and labor to realize their productive potential more fully. *Finally, avoiding short-run stabilization policies will increase the likelihood of maintaining a noninflationary economic environment.* That environment will, in turn, allow private producers to concentrate on achieving higher productivity growth and profitability.

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE II NOVEMBER, 1988 — Percentage Change from Same Month Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	OCTOBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	OCTOBER TOTAL RETAIL SALES ‡
The State		11.2	-6.8	-6.1	-3.9	-3.8	4.5	5.3	0.0	10.5
Alexandria	2.3	48.1	-52.6	8.3	N.A.	7.0	5.8	-8.8	-2.1	12.4
Bristol	1.5	N.A.	146.1	6.5	-12.9	-2.9	8.0	-0.5	1.0	11.9
Cape Charles - Exmore	-4.4	N.A.	11.3	1.9	N.A.	7.5	N.A.	-9.0	-13.1	8.2
Charlottesville	5.2	8.8	623.3	6.5	N.A.	-4.5	2.5	-0.4	8.4	12.4
Danville	7.2	N.A.	-14.4	-1.1	-6.4	20.1	3.7	6.5	N.A.	20.3
Franklin	3.7	N.A.	16.7	3.7	-0.2	8.3	N.A.	-3.8	7.7	-1.6
Fredericksburg	11.3	24.4	38.4	N.A.	-1.5	14.5	N.A.	16.2	12.3	12.6
Harrisonburg	9.5	19.3	217.0	N.A.	5.2	-0.8	N.A.	2.9	18.3	4.0
Lynchburg	9.0	8.5	-48.1	4.7	N.A.	11.4	1.1	29.4	2.7	17.4
Newport News - Hampton	1.9	N.A.	-26.7	4.6	-2.6	-5.6	3.0	N.A.	2.0	9.6
Norfolk - Va. Beach - Portsmouth	-1.0	0.0	6.6	5.1		-6.6		N.A.	-3.8	4.5
Petersburg	4.0	-45.1	-39.7	N.A.	-3.6	-2.4	4.1	24.0	2.2	3.6
Richmond	-2.1	12.7	163.2	5.6	-6.4	-12.4		4.0	-5.6	3.2
Roanoke	2.5	15.7	-59.0	3.0	-14.6	0.9	-0.7	2.8	2.3	24.2
Staunton	13.6	6.7	2689.6	N.A.	-0.4	3.2	N.A.	N.A.	24.2	6.4
Williamsburg	8.8	23.8	11.5	24.5	N.A.	30.7	N.A.	8.6	-4.0	9.8
Winchester	13.8	21.6	-81.5	2.7	20.3	9.0	N.A.	N.A.	N.A.	23.2

TABLE II DECEMBER, 1988 — Percentage Change from Same Month Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NOVEMBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	NOVEMBER TOTAL RETAIL SALES ‡
The State		-3.0	38.0	7.3	-0.3	8.0	4.5	1.4	1.9	-3.4
Alexandria	4.4	13.1	-17.9	8.5	N.A.	30.1	8.2	2.1	-2.7	-4.0
Bristol	1.9	N.A.	-73.1	4.6	-4.5	30.1	7.3	-12.2	-0.7	-6.2
Cape Charles - Exmore	3.5	N.A.	27.7	9.6	N.A.	43.5	N.A.	-5.3	-2.2	-17.0
Charlottesville	3.9	10.2	-38.0	10.5	N.A.	-7.0	3.6	5.3	7.7	-4.3
Danville	1.8	N.A.	766.7	1.3	-13.5	10.9	3.7	4.8	N.A.	3.8
Franklin	0.4	N.A.	5647.9	15.2	3.7	6.3	N.A.	9.5	-0.7	-29.6
Fredericksburg	11.9	15.5	8.1	N.A.	1.8	15.6	N.A.	21.6	14.1	1.7
Harrisonburg	2.5	14.0	45.9	N.A.	7.4	-9.4	N.A.	-18.0	16.3	-11.4
Lynchburg	0.9	11.7	132.2	0.0	N.A.	-6.4	1.9	8.5	3.2	-6.6
Newport News - Hampton	2.7	N.A.	192.6	9.1	4.6	3.4	2.9	-4.9	7.6	-14.0
Norfolk - Va. Beach - Portsmouth	0.3	-13.9	3.7	9.0		-5.6		1.7	-0.9	-7.3
Petersburg	3.6	-49.3	-4.8	N.A.	N.A.	-38.9	4.1	2.5	8.0	-17.2
Richmond	0.4	-3.0	-9.7	7.0	-4.3	-10.5		4.7	2.1	-4.0
Roanoke	0.6	11.6	-68.2	5.6	-3.1	12.2	0.2	-4.4	0.4	-6.1
Staunton	3.8	7.6	-10.2	N.A.	-8.5	4.7	N.A.	N.A.	17.5	-25.8
Williamsburg	0.0	9.0	756.6	3.7	N.A.	-17.1	N.A.	13.4	4.9	-7.2
Winchester	-4.6	18.4	24.3	2.1	3.1	-16.9	N.A.	N.A.	-4.6	-6.6

TABLE III DECEMBER, 1988 — Percentage Change January - Decemberr from Same Period Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN. - NOV. NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	JAN. - NOV. TOTAL RETAIL SALES ‡
The State		-4.2	13.2	4.8	-1.1	0.2	4.3	0.9	-0.9	5.7
Alexandria	0.5	16.5	89.0	7.3	N.A.	3.5	6.6	-0.7	-5.7	4.4
Bristol	0.9	N.A.	-0.5	3.6	-10.4	13.4	6.4	3.4	-3.8	2.7
Cape Charles - Exmore	-1.3	N.A.	89.8	8.3	N.A.	12.4	N.A.	N.A.	-9.3	-0.4
Charlottesville	5.1	24.4	24.8	5.0	N.A.	3.4	4.2	2.5	6.5	6.1
Danville	4.0	N.A.	36.3	-0.7	-1.4	11.8	2.5	-4.0	N.A.	15.6
Franklin	-3.1	N.A.	168.9	2.3	0.9	-6.6	N.A.	-4.7	-1.8	-11.2
Fredericksburg	6.2	12.8	-16.3	N.A.	-1.3	7.0	N.A.	13.8	5.6	6.9
Harrisonburg	5.9	9.5	28.4	N.A.	11.6	-1.3	N.A.	8.2	4.8	8.2
Lynchburg	2.7	6.6	-6.5	2.4	N.A.	1.3	1.1	7.0	2.0	3.5
Newport News - Hampton	-0.4	N.A.	16.4	2.1	-1.5	-8.9	3.3	N.A.	0.5	0.4
Norfolk - Va. Beach - Portsmouth	0.7	-10.3	6.3	4.0		-8.9		N.A.	-1.1	0.9
Petersburg	1.7	-41.7	-17.8	N.A.	N.A.	-3.1	4.0	6.5	1.9	-1.5
Richmond	1.1	-4.4	-1.4	4.5	-2.4	-1.6		6.4	-2.0	5.2
Roanoke	1.2	4.0	5.1	4.8	-3.9	-3.0	-0.6	2.4	0.6	9.0
Staunton	6.4	-1.1	28.1	N.A.	N.A.	-1.1	N.A.	N.A.	13.3	-6.9
Williamsburg	2.6	-5.2	19.9	4.6	N.A.	-2.0	N.A.	6.0	2.6	2.0
Winchester	6.2	9.8	-72.3	2.6	5.1	6.3	N.A.	N.A.	N.A.	10.8

* Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
\# Virginia Employment Commission data which lags behind current reports.
† Preliminary data based on a survey sample.
‡ Total sales based on sales tax information which lags behind current reports.
Petersburg MSA data are available for these areas.

N.A. – Not Available
0.0. – No Change

TABLE IV ADMINISTRATION ECONOMIC ASSUMPTIONS, 1988-94

ITEM	1988	1989	1990	1991	1992	1993	1994
	Percent Change, Year to Year						
Real GNP	3.8	3.2	3.2	3.3	3.2	3.2	3.2
Real compensation per hour, nonfarm bus.	0.5	0.9	1.2	1.8	2.0	1.9	1.9
Output per hour, nonfarm business	1.5	1.2	1.8	2.0	2.1	2.1	2.1
Consumer price index	4.0	3.8	3.7	3.2	2.7	2.2	1.7
	Annual Level						
Employment (millions, including Armed Forces)	116.7	118.8	120.4	122.3	124.0	125.7	127.4
Unemployment rate (percent)	5.4	5.2	5.1	5.0	5.0	5.0	5.0

TABLE V ACCOUNTING FOR GROWTH IN REAL GNP, 1948-94

ITEM	1948 IV to 1981 III	1973 IV to 1981 III	1981 III to 1988 III	1988 III to 1994 IV
GROWTH IN:				
Civilian employment	1.7	2.0	2.0	1.5
PLUS: Nonfarm business employment as share of civilian employment	0.1	0.1	0.3	0.2
EQUALS: Nonfarm business employment	1.7	2.1	2.3	1.7
PLUS: Average weekly hours (nonfarm business)	-0.4	-0.6	-0.1	-0.1
EQUALS: Hours of all persons (nonfarm business)	1.4	1.5	2.2	1.6
PLUS: Output per hour (productivity, nonfarm business)	1.9	0.6	1.4	1.9
EQUALS: Nonfarm business output	3.3	2.2	3.7	3.6
PLUS: Nonfarm business output as share of real GNP	0.0	-0.1	0.7	0.4
EQUALS: Real GNP	3.3	2.2	3.0	3.2

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